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SUBJECT: EXIM MEETING WITH BRAZIL MINING GIANT VALE

¶1. Begin Summary: On May 11-12, U.S. Export-Import Bank (ExIm) officials, accompanied by Ambassador Sobel, met with finance executives from Brazilian mining conglomerate Vale to discuss access to ExIm financing. Vale has expressed a preference for using ExIm financing to purchase equipment and capital goods from the United States; however, Vale views ExIm's Maritime Administration (MARAD) requirement to use American shippers as rendering its terms less competitive than those offered by lenders in Europe and Asia. Consequently, Vale has increasingly turned to China for trade and to other Export Credit Agencies (ECAs) for financing. Vale expressed a desire to arrive at a permanent solution to make U.S. imports more attractive. Ambassador Sobel proposed that Commerce and ExIm develop a program to guarantee U.S. exports to Vale which could eventually become a pilot for boosting U.S. exports to other countries. As a next step, he suggested that Vale executives meet with ExIm officials and Commerce Secretary Locke in Washington DC in July on the margins of the U.S.-Brazil CEO Forum to gain broader support for this initiative. End Summary.

MARAD REQUIREMENTS REDUCE US COMPETITIVENESS, SAYS VALE

¶2. On May 11, the Ambassador, ExIm's Chief Operating Officer (COO) John McAdams and Regional Director Xiomara Creque, and Rio Commercial Officer met with Vale's Director of Finance Guilherme Cavalcante and with General Manager for Funding Jose Penedo. This cable summarizes both meetings, which followed up initial meetings held by Consulate officials in October 2008.

¶3. Vale, the second largest company in Brazil after Petrobras, is a major mining conglomerate with a capital expenditure (CAPEX) in 2008 of U$11 billion. Despite the financial crisis and a 40 percent reduction in global trade, Vale projects a 2009 CAPEX of U$7 billion, making it an important potential customer for U.S. exporters. (Note: Vale has raised U$2.5 billion from Brazil's National Development Bank (BNDES) and various ECAs despite the credit crunch, so they are in a healthy position to procure goods internationally. End Note). Vale prefers to use ExIm financing to purchase equipment and capital goods from the United States; however, Vale executives stated that Maritime Administration (MARAD) shipping requirements make ExIm terms unattractive. Consequently, Vale has increasingly turned to China for trade and to other Export Credit Agencies (ECAs) for financing. Vale expressed its desire to arrive at a permanent solution with ExIm to make U.S. imports more attractive - suggesting greater flexibility in U.S. shipping terms or perhaps a blanket waiver for MARAD requirements -- and emphasized that it was in the United States' best interest to do so, to avoid losing further ground to China and other emerging markets that are outpacing the United States in their share of international economic growth.

¶4. The MARAD policy requires that shipments of U.S. goods greater than U$20 million be carried by U.S. flag shippers. Unfortunately U.S. shippers tend to be more expensive, Xiomara Creque admitted. She said that while ExIm had to abide by the U$20 million ceiling, it was actively seeking creative solutions to Vale's dilemma. ExIm has already discussed price competitiveness with MARAD, she said, highlighting that several deals have been lost due to this policy. John McAdams affirmed that ExIm has established a dialogue that could pave the way for Vale and other companies to get better shipping rates. McAdams envisions MARAD assisting exporters in

structuring their requirements and then reviewing the final bids with the U.S. exporters. Vale welcomed this idea and said that such an arrangement would make U.S. exports more attractive. McAdams added that this topic would be a high priority for Ex-Im's incoming Chairman. He also discussed direct loans, stating that ExIm's priority for this year was to fill the gap left by commercial lenders by offering qualified borrowers access to ExIm's balance sheet. McAdams opined that it might be easier to negotiate with MARAD now given the economic crisis and resulting 40 percent drop in global trade, and pledged to work with MARAD and Vale to discuss more competitive terms.

VALE TURNS TO CHINA

¶5. Vale noted its success in the past in obtaining MARAD waivers, working through a private consultant (who had previously been a MARAD Director). Vale Finance Director Cavalante agreed that, while it might be easier to get better rates now that international orders have dropped to an all time low due to the financial crisis, Vale would be in the same situation once trade recovered and prefers a more permanent solution. Vale has increasingly turned to China for business opportunities and to other Export Credit Agencies (ECAs) for financing, Cavalcante said. He also stated that due to ExIm's own restrictions imposed by OECD guidelines and U.S. policies, Vale was putting equipment purchases from the United States on hold (he mentioned 44 trucks from Caterpillar), and was seeking financing from other ECAs in Japan, Korea, China, Germany and Italy that offered more flexible terms. (Note: OECD guidelines restrict ExIm to financing 85 percent of the purchase with 10 year payment terms depending on the value of the export. Other non-OECD countries like China do not have to adhere to these rules; however, Vale pointed out that other OECD countries such as Germany and Italy are violating these rules by employing market windows where they offer better terms to make their goods more competitive to buyers like Vale. End Note). Cavalcante added that the most important terms for Vale were tenure (7-12 year loans) and flexible disbursement. He said that Vale could easily obtain five-year loans from any bank or ECA. He added that Vale wants to purchase more equipment (trucks and locomotives) and capital goods from the United States, due to quality assurance and geographical proximity, and would use ExIm financing if it could offer more attractive terms and if the MARAD restrictions could be permanently waived.

¶6. China is quickly closing the gap on product quality, Cavalcante said, and it will only be a matter of time before they can compete with Caterpillar on that basis. He provided examples of major purchases that Brazil is already making from China. Thyssen Krupp has recently purchased a coking plant and, while Chinese policy of sending Chinese workers to install equipment goes against Brazilian local content requirements, the pricing and terms offered were too good to pass up. Second, Vale has purchased an entire thermoelectric plant for its Barcarena site to demonstrate that China's technological compatibility or "plug and play" capability. Vale is also negotiating long-term financing to build 12 ships at Chinese shipyards due to pricing and port depth factors. Cavalcante believes that, if this trend continues, the United States runs the risk of the dollar losing ground as the currency of world trade. For example, an emerging market trading system is evolving where Vale exports iron ore to China which in turn exports equipment to Brazil. The next logical step is to substitute the U.S. dollar for a basket of currencies. He stated that long-term U.S. financing (with 7-12 year terms) could preserve the U.S. dollar as the global trade currency and maintain or build U.S. company competitiveness abroad.

¶7. More flexible ExIm financing and the lifting of MARAD requirements would stimulate more U.S. exports and boost the U.S. economy, Cavalcante argued. Vale is negotiating a U$8 billion line of credit with China pending pricing negotiations on iron ore sales to China's steel mills, he noted. They have already signed an MOU and President Lula's trip to China on May 18 further strengthened the Brazil-China trade relationship. Cavalcante expects the final agreement to be signed in the next few months depending on the iron ore price negotiation. He highlighted that Vale currently depends on China for 75% of its iron ore sales because it is too expensive to ship to the United States. Ambassador Sobel argued that Vale was putting itself in a potentially precarious position by relying so heavily on China. He assured the Vale that ExIm and Commerce would

work together to provide U.S. supplier lists and offer attractive finance terms, and to help Vale create a better balance among their trading partners.

NEXT STEPS

¶8. Ambassador Sobel suggested that Commerce and ExIm develop a program to guarantee U.S. exports to Vale, which could eventually serve as a pilot for boosting U.S. exports to other countries. He proposed that Vale executives meet with ExIm officials and Commerce Secretary Locke in Washington DC on the margins of the upcoming U.S.-Brazil CEO Forum in July to gain broader support for this initiative. McAdams affirmed that ExIm should be more present in Latin America and said that he would propose greater activity and an expanded presence to the incoming Chairman. Vale agreed to provide ExIm with a sample framework agreement with a non-OECD ECA to help facilitate the structuring an agreement with ExIm, noting ExIm's creative efforts in Mexico and also in Brazil (such as its U$2 billion preliminary commitment to Petrobras).

¶9. On the broader issue of our bilateral relationship, Vale and USG officials discussed other areas for possible cooperation. ExIm showed a great deal of interest in Vale's environmental program for reforestation in the Amazon rainforest (a U$200 million project that Vale will soon open for global partner participation). Ambassador Sobel thought that this initiative could be of particular interest to the White House. ExIm also expressed interest in working with Vale on projects in Colombia and Africa. The Ambassador believes USAID might consider Vale's school building initiative in Mozambique an interesting project as well.

MARTINEZ